

ORIGINAL



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MEMORANDUM

TO: Docket Control

FROM: Ernest G. Johnson
Director
Utilities Division

DATE: September 28, 2005

RE: IN THE MATTER OF THE RATE APPLICATION FOR CLEAR SPRINGS
UTILITY CO., INC. – SEWER DIVISION (DOCKET NO. WS-01689A-05-0612)

Attached is the Staff Report for Clear Springs Utility Co., Inc. – Sewer Division rate application. Staff recommends approval of the Company's proposed sewer tap rate tariff.

EGJ:JJD:rdp

Originator: James J. Dorf

Attachment: Original and sixteen copies

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Service List for: Clear Springs Utility Co., Inc. – Sewer Division
Docket No. WS-01689A-05-0612

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**STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION**

CLEAR SPRINGS UTILITY CO., INC. – SEWER DIVISION


DOCKET NO. WS-01689A-05-0612

RATE APPLICATION

SEPTEMBER 2005

STAFF ACKNOWLEDGMENT

The Staff member responsible for the content of this report is listed below.

A handwritten signature in black ink, appearing to read "James J. Dorf". The signature is stylized with a large initial "J" and a prominent "D".

James J. Dorf
Chief Accountant
Utilities Division

EXECUTIVE SUMMARY

Clear Springs Utility Co., Inc. ("Company") is an Arizona subchapter "S" corporation that provides water utility service to approximately 500 customers and sewer services to 371 customers in and around the community of Sunsites (about 26 miles south of Wilcox) in Cochise County, Arizona. The Company's current rates were approved in Decision 62583 on May 17, 2000.

On August 24, 2005, the Company filed a tariff application for its sewer division. The Company seeks to implement a sewer connection tariff and is not requesting any changes to its existing rates and charges. The Company would like to charge the actual cost of hooking up a new sewer tap for new customers. The Company's existing tariff does not provide for sewer tap charges at all.

Staff recommends approval of the Company's proposed sewer tap tariff.

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EXHIBIT

COMPANY PROPOSED SEWER TAP TARIFF – Exhibit I

Introduction

On August 24, 2005, Clear Springs Utility Company, Inc. ("Company" or "Applicant") filed a tariff application for its sewer division. The Company seeks to implement a sewer connection tariff and is not requesting any changes to its existing rates and charges. The Company would like to charge the actual cost of hooking up a new sewer tap to the new customer. The Company's existing tariff does not provide for sewer tap charges at all.

Company Background

The Company is an Arizona subchapter "S" corporation that provides water utility service to approximately 500 customers and sewer services to 371 customers in and around the community of Sunsites (about 26 miles south of Wilcox) in Cochise County, Arizona. The Company's current rates were approved in Decision 62583 on May 17, 2000.

The Company had previously filed a request to amend its tariff for this change in Docket No. WS-01689A-05-0207 but subsequently requested that it be administratively closed. The administrative closure was effectuated on July 20, 2005 (Closure No. 68000).

The Company has received requests for sewer connections to its system. The Company indicated that its current tariff does not provide a charge for sewer taps. The Company wants to collect from the new customer its actual costs in performing the tap. The Company has requested expedited treatment of its application so it can respond to the pending requests.

Proposed Tariff Change

The Company has submitted a "Sewer Tap Charge" tariff (Exhibit I). The tariff is a "Permitted Cost" tariff wherein the actual cost to perform the sewer connection is the responsibility of the entity requesting the sewer tap. The Company proposes that the charge be non-refundable. The procedure to be used in determining and billing the cost of any sewer tap are summarized in Exhibit I. Given the Company's financial condition as discussed below, Staff recommends that the sewer tap tariff be non-refundable contributions in aid of construction.

The Company is not requesting any changes to its existing rate and service charges for sewer service. However, Staff has completed a review to determine if existing rates are based on a fair value finding.

Staff Analysis of Filing

Staff's analysis included review of the information provided in the Applicant filing, including additions to plant in service since its last general rate filing and invoices supporting their purchase. Staff also reviewed invoices supporting the operating costs.

The Company reported a net income of \$9,297 for 2004, down from \$13,338 in 2003. The cash on hand at the end of 2004 was \$6,306 and customer accounts receivable have climbed to \$32,853 at the end of 2004 from \$19,889 in 2003.

The Company's utility assets are almost fully depreciated and the Company's equity balance stood at \$42,108 at the end of 2004. Although the Company financial fortunes appear to be declining, it is not currently requesting any changes in its base rates and charges.

The Company estimates that requested sewer taps may cost in excess of \$2,500 depending on site specific requirements.

Rate Base

The Company has proposed an Original Cost Rate Base ("OCRB") of \$32,861. The Company waived its right to determine Reconstruction Cost New Less Depreciation ("RCND").

Subsequent to the filing the Company discovered a clerical error in its calculation of Plant in Service and Depreciation Expense. Staff has incorporated the change and determined that the revised OCRB is a negative \$99. See Schedule JJD-2.

Because the Company has a negative rate base, Staff will base its fair value finding by determining and appropriate Operating Margin for the Company. As such, Staff has not prepared an Engineering report at this time. However, a review will be conducted by Staff when analyzing the Company's water division in Docket No. W-01689A-05-0629. Such a review will be conducted prior to any formal proceedings in this case.

Operating Expenses

Staff reviewed invoices supporting the Company's operating expenses. The only Staff adjustment required was to correct the clerical error discovered for Depreciation Expense. Staff has increase Depreciation Expense for \$1,200 to correct this error.

The Company is currently depreciating its plant in service using a composite rate of 5 percent. Although Staff has modified its required depreciation rates for plant in service since the Company's last rate filing, Staff will recommend continuing with the 5 percent rate since the Company's plant is nearly fully depreciated.

Operating Margin

Based on Staff's adjusted test year operating income of \$8,065 (Schedule JJD-3), the Company's operating margin is approximately 15.9 percent based on its test year revenues of \$50,771. Staff recommends that this level of margin be continued given the Company's poor financial posture and the need to provided adequate funds to maintain an almost fully depreciated sewer system.

Therefore, the Company will not need to change its existing rates and service charges at this time.

Notices

The Company noticed its customers via U.S. Mail on August 23, 2005. Unless otherwise amended by the Commission, Staff does not recommend customer notification since the Company's current base rates and service charges will not change and only new customers will be impacted by this new tariff.

The customers being affected by the tariff change can be adequately noticed at the time a new customer requests service.

Compliance

The Company is in compliance with Arizona Department of Revenue requirements and has paid all taxes due under Title 42 and Title 43.

The Company has also requested a Compliance Status Report from the Arizona Department of Environmental Quality ("ADEQ"). Due to the current response capability of ADEQ, Staff will recommend that the Company's Compliance Status Report be submitted and reviewed prior to this item being voted on at Open Meeting.

Since 2002, there have been one complaint, two inquiries and one opinion filed against the Company, all of which have been resolved.

Staff's Conclusions and Recommendation

Staff concludes that, based on its fair value finding, there is no reason to modify the Company's existing rates and service charges at this time. The existing rates will produce the Staff recommended revenue requirement and provide a reasonable operating margin.

Staff also concludes that the Company's proposed sewer tap tariff, as described in Exhibit I, is reasonable and will permit the Company to remain financially viable.

Staff recommends:

1. the Company continue to charge its existing rates and service charges.
2. approval of the Company's proposed sewer tap tariff as described in Exhibit I.

3. that within fifteen (15) days of the effective date of a decision in this matter, the Company docket, as a compliance item in this case, a new service tap tariff in conformance with Exhibit I.

REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	(A) COMPANY ORIGINAL COST	(B) STAFF ORIGINAL COST	(C) STAFF FAIR VALUE
1	Adjusted Rate Base	\$ 32,861	\$ (99)	\$ (99)
2	Adjusted Operating Income (Loss)	\$ 9,263	\$ 8,065	\$ 8,065
3	Current Rate of Return (L2 / L1)	28.19%	NM	NM
5	Required Operating Income (L4 * L1)	\$ 9,263	\$ 8,065	\$ 8,065
9	Adjusted Test Year Revenue	\$ 50,771	\$ 50,771	\$ 50,771
10	Proposed Annual Revenue (L8 + L9)	\$ 50,771	\$ 50,771	\$ 50,771
11	Required Increase in Revenue (%)	0.00%	0.00%	0.00%
12	Operating Margin	18.20%	15.90%	15.90%

NM= Not Meaningful

RATE BASE - ORIGINAL COST

LINE NO.		(A) COMPANY AS FILED	(B) STAFF ADJUSTMENTS	(C) STAFF AS ADJUSTED
1	Plant in Service	\$ 338,507	\$ (3,089) A	\$ 335,418
2	Less: Accumulated Depreciation	(268,203)	(29,871) A	(298,074)
3	Net Plant in Service	<u>\$ 70,304</u>	<u>\$ (32,960)</u>	<u>\$ 37,344</u>
	<u>LESS:</u>			
4	Contributions in Aid of Construction (CIAC)	\$ 82,012		
5	Less: Accumulated Amortization	(82,012)		
6	Net CIAC	-		
7	Advances in Aid of Construction (AIAC)	40,897		40,897
8	Customer Deposits	1,020		1,020
	<u>ADD:</u>			
9	Cash Working Capital	<u>4,474</u>		<u>4,474</u>
10	Net Additions and Subtractions	<u>(37,443)</u>		<u>(37,443)</u>
11	Original Cost Rate Base (L3-L10)	<u>\$ 32,861</u>	<u>\$ (32,960)</u>	<u>\$ (99)</u>

References:

A Corrections to Plant in Service and Accumulated Depreciation due to clerical errors corrected by the Applicant.

OPERATING INCOME STATEMENT - TEST YEAR AND STAFF RECOMMENDED

LINE NO.	ACCT NO.	DESCRIPTION	[A] COMPANY TEST YEAR AS FILED	[B] STAFF TEST YEAR ADJUSTMENTS	[C] STAFF TEST YEAR AS ADJUSTED
1		<u>REVENUES:</u>			
2	461	Metered Sewer Revenue	\$ 47,372		\$ 47,372
3	460	Unmetered Sewer Revenue			-
4	474	Other Sewer Revenues	3,399		3,399
5		Total Operating Revenues	<u>\$ 50,771</u>		<u>\$ 50,771</u>
6		<u>OPERATING EXPENSES:</u>			
7	615	Purchased Power	\$ 1,417		\$ 1,417
8	620	Repairs and maintenance	478		478
9	621	Office Supplies	217		217
10	630	Outside Services	25,659		25,659
11	635	Testing	4,924		4,924
12	650	Transportation Expense	2,594		2,594
13	675	Miscellaneous Expense	29		29
14	403	Depreciation Expense	2,983	1,200 A	4,183
15	408.1	Property Taxes	3,205		3,205
16		Total Operating Expenses	<u>41,506</u>	<u>1,200</u>	<u>\$ 42,706</u>
17		Operating Income (Loss)	<u>\$ 9,265</u>	<u>\$ (1,200)</u>	<u>\$ 8,065</u>

References:

A Clerical error corrected by the Applicant.

Sewer Tap Charges:

(Non-refundable pursuant to A.A.C. R14-2-605)

Requests for sewer taps will be processed as indicated below and will be charged non-refundable Permitted Costs* as defined herein.

*Permitted Cost

- A. Costs shall be verified by invoice.
- B. For services that are provided by the Company at cost, cost shall include all labor, materials, other charges incurred, and overheads. However, prior to any such service being provided, the estimated cost of such service will be provided by the Company to the customer. After a review of the cost estimate, the customer will pay the amount of the estimated cost to the Company.
- C. In the event the actual cost is less than the estimated cost, the Company will refund the excess to the customer within 30 days after completion of the provision of service or after the Company's receipt of invoices, time sheets or other related documents, which ever is sooner.
- D. In the event the actual cost is more than the estimated cost, the Company will bill the customer for the amount due within 30 days after completion of the provision of the service or after the Company's receipt of invoices, timesheets or other related documents, which ever is later. The amount so billed will be due and payable 30 days after the invoice date. However, if the actual cost is more than five percent (5%) greater than the total amount paid, the customer will only be required to pay five percent (5%) more than the total amount paid, unless the Company can demonstrate that the increased costs were beyond its control and could not be foreseen at the time the estimate for the total amount paid was made.
- E. All amounts paid by the customer will be considered a non-refundable contribution in aid of construction pursuant to A.A.C. R14-2-605.
- F. At the customer's request, the Company shall make available all invoices, timesheets or related documents to support the cost for providing service.
- G. Permitted cost shall include any state or federal income taxes that are or may be payable by the Company as a result of any tariff or contract for wastewater facilities for which the customer advances or contributes funds or facilities to the Company.